



UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS  
Cambridge International Diploma in Business  
Standard Level

**BUSINESS FINANCE**

**5163/01**

Optional Module

**October 2012**

**2 hours plus 15 minutes' reading time**

Additional Materials: Answer Booklet/Paper

**READ THESE INSTRUCTIONS FIRST**

Write your Centre number, candidate number and name on all the work you hand in.

Write in dark blue or black pen.

You may use a soft pencil for any diagrams, graphs or rough working.

Do not use staples, paper clips, highlighters, glue or correction fluid.

Attempt **all** tasks.

Start each task on a new piece of paper.

Please leave a margin on the right and left hand side of each new page.

At the end of the examination, fasten all your work securely together, in the correct order.

The number of marks is given in brackets [ ] at the end of each question or part question.

\* 7 5 4 2 8 2 0 9 5 2 \*

This document consists of **5** printed pages and **3** blank pages.

**You must read the case study below and attempt ALL of the tasks which follow.**  
(This case study is fictitious.)

### **Direct Sportswear Ltd**

Lucy Wong is the Finance Director of the newly formed company Direct Sportswear Ltd. The company was formed two years ago when a manufacturer of sports equipment agreed to a merger with a distributor of sports equipment. Lucy has spent the past two years trying to sort through the accounting processes of the two sides of the company, in order to establish a common basis for accounting across the whole company. The main difficulty has been that the two sides of the company applied different principles and standards to their individual accounts. This meant that there were different methods of accounting being operated. Lucy now believes that she has come up with an accounting model that will work and she has submitted a proposal to the next Board meeting for approval. 5

During her investigations, Lucy found a number of problems and issues regarding the accounting process within the company. 10

Firstly, there appeared to be very few employees within the company who had any training in accountancy. This first came to light when she called a meeting with the Department heads to discuss reducing costs. Only one person out of eight that attended had any real knowledge of the different types of costs and cost behaviour. Lucy therefore established a training programme so that all personnel would be aware of what is meant by fixed costs and variable costs, direct costs and indirect costs, and average costs and marginal costs. 15

Secondly, there were some sections of the company that were not using double-entry accounting techniques to record activities, and this had led to inaccurate accounts being produced. The company's external auditor had raised this issue and had refused to sign off the year-end accounts. Lucy has now instructed all sections to introduce double-entry recording of all transactions. She hopes that this will solve the problem and she believes it will also mean that both the internal and external stakeholders of the company will find it easier to use and understand the accounts. 20

Recently, the company has attracted the attention of another company which has launched a hostile take-over bid. Lucy has spent some time on developing a strategy to resist this take-over, but not all the Board members are opposed to the bid. Despite this, Lucy has produced a press release which she hopes will encourage shareholders to resist the take-over bid. The key elements of the press release include: 25

- Direct Sportswear Ltd is a well respected company which has a loyal customer base and a competitive range of trademarked products. 30
- Direct Sportswear Ltd has a 20% share of its market and it has seen its turnover grow by 5% in the last year. Profits are up by 12% on the previous year.
- Direct Sportswear Ltd purchases its raw materials from a number of home-based suppliers, unlike many of its competitors. 35
- Direct Sportswear Ltd will soon launch its own website which will allow customers to purchase its products.

The press release is due to be published in the financial papers at the end of the month, and the Board has asked Lucy to monitor the effects that it has on the company's sales.

## Financial Information

### Item 1

The company's bookkeeper had found the following transactions that had not yet been entered into the prime entry books of the business.

- 1 Purchased a fax machine on credit from A1 Supplies, cost \$3 555<sup>1</sup>
- 2 Sold goods on credit to C.Wang, value \$680
- 3 Paid M. Yue, a creditor, \$1 234
- 4 Received \$1 600 from a debtor, P. Lim

### Item 2

OUTPUT	TOTAL FIXED COSTS \$	TOTAL VARIABLE COSTS \$	TOTAL COSTS \$	AVERAGE COST/UNIT COST \$	MARGINAL COST \$
0	10 000	0	10 000	0	0
1	10 000	6 000	16 000	16 000	<b>A</b>
2	10 000	<b>B</b>	<b>C</b>	<b>D</b>	2 000
3	10 000	<b>E</b>	<b>F</b>	7 000	<b>G</b>
4	12 000	13 000	25 000	6 250	4 000
5	12 000	15 000	27 000	<b>H</b>	2 000

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<sup>1</sup> Quoted in US dollars

**You must attempt ALL of the following tasks.**

**Where appropriate use information from the case study to support your answer.**

- 1**
- (a)** Explain the difference between a merger and a hostile take-over bid. [4]
  - (b)** Explain how a trademark is shown in the accounts of a business. [3]
  - (c)** Explain how the company managed to increase profits by 12% when sales only increased by 5%. [3]
  - (d)**
    - (i)** Explain **one** financial advantage and **one** financial disadvantage of buying from a range of suppliers. [2 x 2 = 4]
    - (ii)** Explain **one** financial advantage and **one** financial disadvantage of purchasing only from local suppliers. [2 x 2 = 4]
  - (e)** Explain **one** possible financial disadvantage of selling via a website. [2]
- [Total: 20]**
- 2**
- (a)** Explain, with your own examples, what is meant by double-entry bookkeeping. [8]
  - (b)** Using the information in **Item 1**, produce accounting entries for **each** of the transactions in double-entry format. [8]
  - (c)** Explain what is meant by the balance sheet equation. [4]
- [Total: 20]**
- 3**
- (a)** Distinguish clearly between:
    - (i)** direct costs and indirect costs [4]
    - (ii)** fixed costs and variable costs [4]
    - (iii)** average costs and marginal costs [4]
  - (b)** Using the information in **Item 2**, calculate and complete the missing totals **A** to **H** in your answer booklet. [8]
- [Total: 20]**

- 4 (a) Distinguish clearly between internal and external users of business accounts. [6]
- (b) (i) Identify **two** internal and **two** external users of accounts [4]
- (ii) For each of the users in **4b(i)**, explain **how** and **why** they would use the accounts. [8]
- (c) Explain **one** reason why company accounts need to be externally audited. [2]
- [Total: 20]
- 5 (a) Distinguish clearly between accounting principles and accounting standards. [8]
- (b) Explain, with your own examples, how **three** accounting principles affect the accounting process. [3 x 4 = 12]
- [Total: 20]





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